



Dependent Care Flexible Spending Accounts

Preferred Blue[®]
Accounts
More Choices for Consumers

A Dependent Care Account Can Save You Money

As part of your benefits program, you may use payroll deductions to create a pre-tax account to help pay for your dependent care expenses. You can set up a Dependent Care Account during the PEEHIP ~~Flexible~~ open enrollment period. This open enrollment period for the Dependent Care Account is from July 1 through September 30 with an effective date of October 1. The plan year is October 1 through September 30.

Money set aside in your Dependent Care Account will reduce your taxable income, providing you and your family more value for your dollar.

Dependent Care Account

This account reimburses you for expenses associated with the care of your children or other dependents while you (and your spouse) work or attend school full-time. The maximum annual amount allowed for this plan is \$5,000 or \$2,500 for married taxpayers filing separate returns. The minimum annual amount allowed for this plan is \$120.

Participation in this account is voluntary. Setting up an account can have tax advantages that your tax advisor may confirm and explain for you.

While a Dependent Care Account can save you money by using pre-tax dollars, it requires careful planning. Keep in mind that money deducted from your pay and deposited in your Dependent Care Account must be used for the appropriate expenses during the plan year of October 1 through September 30 while you have an active account. Money left in an account does not carry over to the next year, and it is not refundable to you at the end of the year. In other words, if you don't use it, you'll lose it!

Eligible expenses that can be paid from the Dependent Care Account include:

- Licensed nursery school and day care facilities for children
- Child care in or outside your home
- Day care for an elderly or disabled dependent

Expenses that are not eligible include:

- Child support payments
- Food, clothing and entertainment
- Cleaning and cooking services provided by the caregiver



Helpful Information From the Internal Revenue Service

For a complete list of eligible expenses for Dependent Care Accounts, refer to IRS publication 503 "Child and Dependent Care Credit." You may call the IRS at the toll-free number listed in your local telephone directory or visit them on the web at **www.irs.gov** for a copy of this publication.

What About the Current Child Care Tax Credit?

The advantage of the Dependent Care Account is that it allows you to pay the eligible expenses with pre-tax dollars. There are other tax considerations that you must weigh when making decisions about this account, such as the Child Care Tax Credit.

The IRS allows you to take a credit on your federal income taxes for your work-related dependent day care expenses if you file an itemized return. Depending on your income and tax filing status, this Child Care Tax Credit may offer more, or less, tax savings than the Dependent Care Account.

You can use both the tax credit and the Dependent Care Account (not for the same expenses), but any tax credit you take reduces the amount you can contribute to, and claim from, the account. Only you can decide which method is best for your situation.

How Does the Dependent Care Account Work?

During the open enrollment period you decide if you would like to enroll in the Dependent Care Account and how much to contribute for the upcoming plan year. Contributions must be made in whole dollars. The amount you elect will be divided into 12 equal amounts. These funds are deducted from your pay before taxes are withheld and deposited in your account.

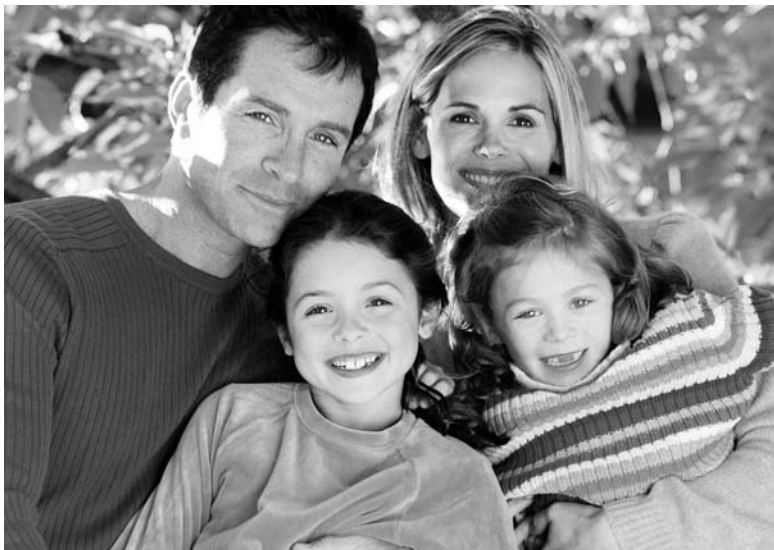
This account is administered by Blue Cross. Once you enroll, you will receive a welcome letter from Blue Cross with information about your account.

The money you pay out of pocket for dependent care services is reimbursed to you from your account. You will need to file a Request for Reimbursement form in order to be reimbursed. Blue Cross will process ~~disbursements~~ daily.

You may elect to have it deposited directly into your checking or savings account.

Reimbursements from the Dependent Care Account cannot exceed the amount deposited in your account at the time your reimbursement is processed.

All reimbursement requests for eligible expenses must be received or postmarked no later than ~~three months~~ following the end of the plan year in order to be processed.



How Can A Dependent Care Account Reduce My Taxes?

Dependent Care Accounts reduce your taxes by reducing your taxable income. Using these pre-tax accounts can make a significant difference in your take-home pay.

The chart illustrates what would happen if your annual pay is \$45,000 and you have \$2,000 in eligible dependent care expenses.

Example	After-tax (without account)	Pre-tax (with account)
Annual pay	\$45,000	\$45,000
Pre-tax contribution used for expenses	0	2,000
Sub-total	\$45,000	\$43,000
Federal income taxes*	2,600	2,300
Social Security taxes**	3,443	3,290
After-tax payment for expenses	2,000	0
Take-home pay	\$36,957	\$37,410
Total tax savings from using pre-tax dollars		\$453
* Income (less pre-tax expenses)	\$45,000	\$43,000
Less: Standard Deduction	10,000	10,000
Exemptions	12,800	12,800
Taxable Income	\$22,200	\$20,200
Federal Income Taxes	\$2,600	\$2,300
**Income (less pre-tax expenses)	\$45,000	\$43,000
Social Security rate	7.65%	7.65%
Social Security taxes	\$3,443	\$3,290

Based on 2005 tax laws. Assumes you are married, file jointly with your spouse and take the standard deductions and four exemptions. For illustration purposes only. Please consult your tax advisor for your specific tax situation.

Example: Dependent Care Account

Mary has one child. To enable her to work, she pays \$200 per month for day care. Let's look at how a Dependent Care Account can help Mary.

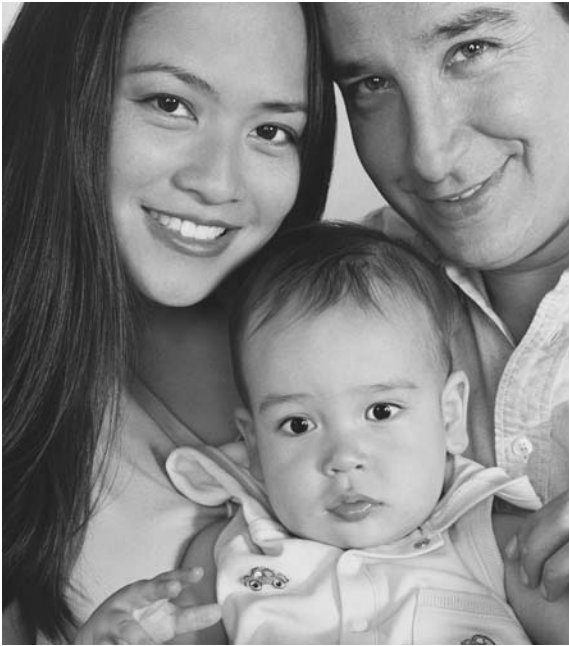
Employee Status:
Married, three federal exemptions

Monthly Salary:
\$2,000

	Without Account	With Account
Gross Pay	\$2,000.00	\$2,000.00
Pre-tax DCA deduction	- 0	- 200.00
Taxable Gross Income	\$2,000.00	\$1,800.00
Less Taxes:		
FICA (7.65%)	153.00	137.70
Federal (15.0%)	300.00	270.00
State (4.4%)	88.00	79.20
Net Pay	\$1,459.00	\$1,313.10
Reimbursement from Dependent Care Account	\$0	\$200.00
Spendable Income	\$1,459.00	\$1,513.10

Mary is paid monthly. She chooses to have \$200 each pay period deducted from her gross salary. Because Mary's taxable income is now lower, her taxes are less.

After Mary is reimbursed from her Dependent Care Account, her total monthly spendable income increases. By the end of the year, Mary increases her **spendable income** by \$649.20. (\$1,513.10 - \$1,459.00 = \$54.10 x 12 months = \$649.20)



Q Are there any government forms to complete?

A Yes, employees must complete the IRS form 2441 or the 1040A when completing income tax returns if they participate in the DCA.

Q Can I change the amount I elect to contribute to my DCA?

A Yes, you can change the amount you contribute annually, during the Flexible open enrollment period. You may change your contribution only if you experience a change in family status, as defined in the plan document.

Q What happens if I have not used all the money in my account by the end of the year?

A IRS regulations dictate that any money left in the account at the end of the year is forfeited. This is commonly known as the "use it or lose it" rule. Although you will have a period to file for reimbursement for expenses incurred in the previous calendar year, it is recommended that you file your expenses as early as possible. ~~Specified grace period is determined by PEEHIP. Please refer to your SPD for specific information.~~

Q What are Dependent Care Accounts?

A Dependent Care Accounts (DCA) are cafeteria plans established under IRS Code section 125, provided by PEEHIP that allow you to pay for dependent care with pre-tax dollars. This helps make these expenses more affordable while providing a tax savings.

Q What are the advantages of a DCA?

A DCA offers substantial benefits. Because the money comes out of your pay before taxes, taxable income decreases and you pay less in federal, state, local and Social Security taxes.

Q What are the disadvantages of a DCA?

A It is very important that you estimate your expenses carefully. Amounts deposited to your account that are not used during the plan year cannot be returned to you. Also, since you are reducing your Social Security contribution, there could be an effect on your future Social Security benefit. These reductions usually are not significant, but you should be aware of them.



Q Do I need receipts in order to receive reimbursement?

A Yes, dependent care claims require a paid receipt or a personal statement itemizing charges from the provider. In addition, the statement must include the provider's name, tax identification number or Social Security number, date(s) of service, amount charged and the name of the person receiving the care.

Q How do I file for reimbursement?

A Simply file a Request for Reimbursement form along with a receipt for all dependent care services. Contact Customer Service at 1 800 213-7930 or visit our web site at www.bcbsal.com or PEEHIP's web site at www.rsa.state.al.us to request a form. All requests should be mailed to:

Blue Cross and Blue Shield of Alabama
Benefits Service Center
P. O. Box 11586
Birmingham, Alabama 35202-1586
or fax to: 205 220-7991
Toll free: 1 877 889-3610

Q Can the DCA reimburse my dependent care provider directly?

A No, the DCA cannot make a payment directly to your day care provider on your behalf. All reimbursements must go directly to the member.



Q Do I have to keep track of how much money is in my account during the year?

A No, Blue Cross will do it for you. You will receive a statement of your account balance with each reimbursement. Statements are also sent quarterly when there is no recent reimbursement to advise you of your account balances. This is an added step to help plan expenses and reduce the amount of unused funds at the end of the year. You can also view your account balance by visiting www.bcbsal.com and logging into CustomerAccess.

Q If I leave my job, may I still participate in the DCA program?

A If you leave your job, you are not entitled to continue the DCA.





Q Who is considered an eligible dependent for reimbursement?

A An eligible dependent must spend at least eight hours a day in the home of the participant and be one of the following:

- A child under age 13 and in the custody of the member
- A spouse who is physically or mentally unable to care for him or herself
- A dependent that is physically or mentally unable to care for him or herself, even if the person is not claimed as an exemption for income tax purposes
- An elderly parent, if you are the sole caregiver

Q If I have a question regarding my account, who do I call?

A Contact Blue Cross and Blue Shield of Alabama Customer Service at 1 800 213-7930.

Q Who is eligible to use the DCA?

A To be eligible, a participant must be at work during the time the eligible dependent receives care. Participants must meet one of the following requirements:

- Be a single parent
- Have a working spouse
- Have a spouse who is a full-time student at least five months during the year while the employee works
- Have a spouse who is physically or mentally unable to provide his/her own care
- Be divorced or legally separated and have custody of the child most of the time even though the former spouse may claim the child as a dependent for income tax purposes

Q What kind of care is eligible for reimbursement?

A Expenses may be reimbursed for services provided:

- Inside or outside the home by anyone other than the member's spouse, a person listed as the member's dependent for income tax purposes or one of the member's children under age 19
- In a dependent care center or a child care center, which meets all applicable state and local regulations
- By a housekeeper whose services include, in part, providing care for a qualifying individual

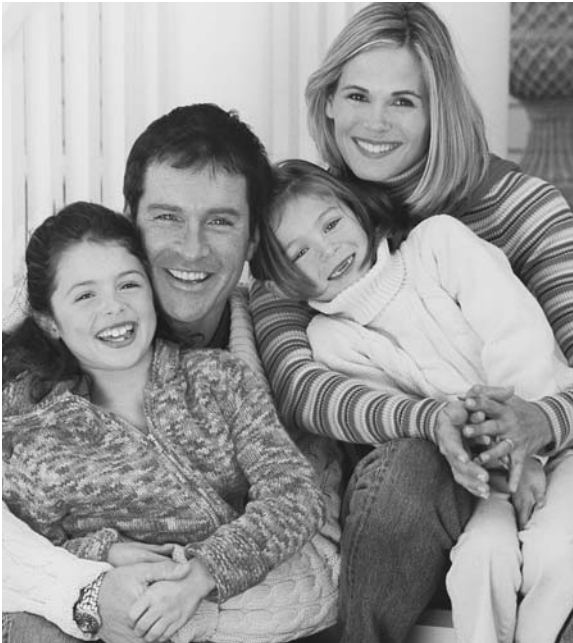
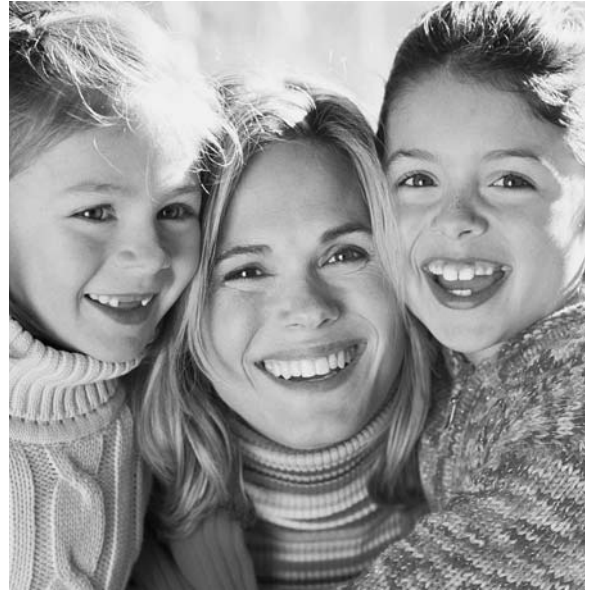


Q What if the dependent care provider does not claim the income as earnings?

A In order to receive reimbursement, the Social Security or tax ID number of the care provider must be provided on the federal income tax return. As a result, the provider will have to pay taxes on that income.

Q Does my dependent care provider have to meet any special requirements for me to participate?

A The documentation submitted to Blue Cross must include the Social Security number or tax ID number and a signature or formal documentation from the dependent care provider. When completing the IRS form 2441 for filing your income tax return, you must give the ID number of the dependent care provider, which would be the Social Security number for an individual.



Q Can I receive the full amount of my day care expense?

A Your payroll deduction amount is the maximum amount you can receive from your DCA. If your expense is greater than the payroll deduction amount, you will only receive reimbursement for the payroll deduction amount. The expense over the deduction amount will be credited and reimbursed to you after the next payroll deduction.

Q Must I pay a bill first and then be reimbursed later?

A Yes, under the DCA, an expense must be incurred and paid before it is reimbursable.



**If you have any questions about your
Dependent Care Account, call:**

1 800 213-7930

File reimbursement requests to:

**Blue Cross and Blue Shield of Alabama
Benefits Service Center
P. O. Box 11586
Birmingham, Alabama 35202-1586
or fax to: 205 220-7991
Toll free: 1 877 889-3610**



BlueCross BlueShield of Alabama

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